
STATE OF INDIANA

DEPARTMENT OF LOCAL GOVERNMENT FINANCE



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MEMORANDUM

DATE: May 2007

TO: Assessing Officials and Vendors

FROM: Barry Wood
Director, Assessment Division

RE: 2006 Ratio Study Re-cap

Although there are a couple of counties still working to have their 2006 Ratio Study approved, the following is a re-cap and review of the 2006 Annual Adjustment and Ratio Study process, as well as suggestions for the 2007 Ratio Study process. Last October, we compiled a memorandum of ratio study issues and suggestions to help facilitate the review and approval process. Many people expressed their desire to have the suggestions prior to submittal instead of after completion. Several of the issues and suggestions are included again. The Assessment Division's goal was to review and reply to the county's ratio study submission within two (2) weeks. This goal was dependent on a county submitting compliant 2004 and 2005 sales disclosure data. In many situations this review timeframe was met, and in others, it was exceeded. Our internal review process has been changed to better meet this goal.

In reviewing the 2006 Ratio Study process and looking ahead for the 2007 Ratio Study approval process, we noted the following points:

1. Although many counties have contracted out the annual adjustment/ratio study process to a vendor, the county assessor is ultimately responsible for the submission of and approval of the ratio study by the Department. We strongly recommend frequent communication with your vendor and other offices in regard to the annual adjustment process.
2. The biggest issue that delayed approval of the 2006 Ratio Studies was non-compliant Sales Disclosure Files (SDF). **For assessment year 2007, your 2005 and 2006 sales disclosure data files must be compliant with the rules of the Department before we will begin reviewing the county's 2007 ratio study. Please ensure your sales disclosure file database is compliant.** If you have any questions or inquiries about your SDF, please contact our Data

Analysis section at Data@dlgf.in.gov. Your electronic file submission should be sent to Diane Powers at Dpowers@iga.state.in.us.

Worksheet Submission Suggestions

3. A consolidated spreadsheet will help in our initial analysis and facilitate our review. Please do not submit a separate spreadsheet file for each class of property or for each township. Our preferred format is one spreadsheet file with the first tab being a summary worksheet followed by separate tabs for each property class (Residential Improved, Residential Vacant, Commercial Improved, Commercial Vacant, Industrial Improved, and Industrial Vacant). Please include the township names, and the school district numbers in the row for each sale. A property class tab should include all sales used in the study for all of the townships. Following each township (or group if necessary) will be the ratio study statistics for that segment. If you are already in the process of finalizing your ratio study and have tabs by township, we will accept your study presuming you submit one file and include a summary spreadsheet.

For the 2007 Ratio Study submission, please include the 2006 pay 2007 gross assessed value for land and improvements as well as the 2007 pay 2008 assessed value for land and improvements for all parcels used in the study.

4. Please be sure to remove any duplicate sales (not re-sales, but multiple occurrences with the same date and price).
5. Please include all calculations within the individual cells of your worksheet and avoid simply downloading values. This enables us to better understand how you calculated values and to more easily troubleshoot discrepancies.
6. Ratios should meet the IAAO standards as outlined in the Annual Adjustment rule. If ratios fall outside of the standards, further stratification or review of sales needs to be undertaken. Also, partially completed ratio studies should not be submitted and will not be reviewed. Please submit fully-completed ratio studies for review.
7. Note that 50 IAC 14-3-3 specifically excluded the practice of including performance audits in the trending process. Therefore, any inclusion of appraisals must be documented and the IAAO procedure outlined in the IAAO Standard (Section 9.6) must be followed.
8. Please be sure to use the Department's township and school district numbers, and not the county's numbers. These are available at http://www.in.gov/dlgf/pdfs/List_of_townships.pdf and <http://www.in.gov/dlgf/pdfs/2002School.pdf>. This will assist in our School Assessment Ratio Study.

9. In our review process, if there are issues or areas that need to be addressed, we will send out a checklist of items. When responding, please address each item specifically. Also, it is not necessary to re-submit an entire ratio study after the issues have been addressed, only those applicable portions (e.g. township/class).

Using the Maximum Number of Sales

10. In our review, we compared the number of sales used in your ratio study with a file analysis of the number of possible sales that could be used from your data submissions to LSA and our Data Analysis Section. In addition to non-compliant sales files, another major problem with the 2006 Ratio Studies was the low number of sales being used in the ratio study compared to the number of sales that were potentially available based on our Data Analysis Section's calculations. While we do not expect all sales to be used (i.e. exempt sales, etc.), the number of expected sales that were not used was larger than anticipated. Eliminating sales strictly based on the ratio not being within the range is not an acceptable practice.
11. Unless there is a specific written notification and approval given for following the IAAO Standard on Ratio Studies on locating extreme outliers (see Section 6.6), valid sales should be included in the study.
12. Any valid sale where an assessment or imputed assessment can be compared to the selling price should be used. The assessment should reflect the "intended use" of the property (e.g. a parcel assessed as a residential lot is purchased for a commercial site; the sale should be included in the study of vacant commercial sales).
13. Be sure to include multiple parcel sales by summing the assessed values and using that total to calculate the Assessment/Sales ratio.
14. For the 2007 Annual Adjustment process, sales disclosures data from calendar year 2005 and 2006 should be used. It is also appropriate to expand the range of sale dates to possibly include 2007 and 2004 and earlier years with appropriate time adjustments. If sales are time adjusted, please include the actual sale price in addition to the time adjusted price.
15. The valuation date for the March 1, 2007 assessment is January 1, 2006.
16. There have been concerns statewide that Commercial and Industrial properties may not have been adequately addressed in 2006. In order to ensure proper stratification and trending, please review and utilize all possible sales for these classes of property. For those classes of property where there are only a few sales, 50 IAC 21-5-2 (b), as well as the IAAO Standard on Ratio Studies gives specific remedies for inadequate sample sizes (see Section 8.4).

Land Value Considerations

17. If necessary, land values may need to be modified (see 50 IAC 21-4-2) before application of annual adjustment factors. There were cases where unimproved classes were significantly below the median or contrary to the sales disclosure file data. The corresponding improved classes showed a low median but still were within the “allowable” range. Adjusting the value component resulted in the values frequently falling into line.
18. Land sales now assessed with the subsequent improvements should also be included in the study by imputing the assessments as vacant.
19. Unimproved land purchased for homesites should be assessed at market value unless IC 6-1.1-4-12 “developers’ discount” statute applies. The sales may be included in the ratio study by imputing an assessment that would have otherwise been applied to the parcel.
20. The assessments for potential homesites may not reach market value by using the method suggested in the guideline (Chapter 2, page 69). Alternatives that will allow reaching market value include:
 - a. Using an assessment based on an excess acre rate determined solely on sales of unimproved sales of this class of property and not on the traditional method of applying a flat percentage to the homesite acre rate;
 - b. Creating an undeveloped homesite rate;
 - c. Using the same homesite acre rate and applying an undeveloped influence factor to yield a vacant land value; or
 - d. Using a higher than normal excess rate, developed from only building lot sales, and then applying a negative influence factor to the parcels with dwellings where the excess acreage is inadequate in size or shape to allow for dividing the parcel and developing or selling an additional building lot.

To date, we have received three (3) ratio studies for 2007. Per IC 6-1.1-5-14, the County Assessor is to deliver the real estate assessor’s book to the Auditor by July 1st. By August 1st, per IC 6-1.1-17-1, the County Auditor must provide assessed valuation information to the fiscal officer of each political subdivision of the county and the Department.

We encourage you to submit your 2007 ratio study as soon as possible to help facilitate the 2008 budget process. Ratio Studies should be submitted electronically to Barry Wood at bwood@dlgf.in.gov. We appreciate your assistance in trying to help ensure taxpayers throughout the state are assessed in a fair and equitable manner.

Please contact Barry Wood or Lori Harmon at (317) 232-3773 or e-mail bwood@dlgf.in.gov or lharmon@dlgf.in.gov if there are questions regarding this memorandum.